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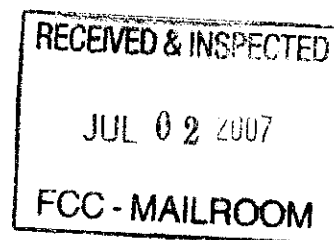
ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION

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June 28, 2007



***Ex Parte Presentation***

Chairman Kevin J. Martin  
FEDERAL COMMUNICATIONS COMMISSION  
445 12th Street, SW  
Washington, D.C. 20554

***Re: Federal-State Joint Board's Recommended Decision to Establish an Interim Cap on Universal Support for Competitive Eligible Telecommunications Carriers (WC Docket No. 05-337 and CC Docket No. 96-45)***

Dear Chairman Martin:

On behalf of the Arizona Local Exchange Carriers Association ("ALECA"), I am writing in support of the Federal-State Joint Board's Recommended Decision to the Federal Communications Commission ("Commission") dated May 1, 2007, (the "Recommended Decision") to establish an interim cap on Federal universal service support for competitive eligible telecommunications carriers ("ETCs"). ALECA was created in the 1990s to represent the interests of incumbent local exchange carriers ("ILECs") serving rural areas and Indian reservations in the State of Arizona.<sup>1</sup> As the trade association that represents most of the ILECs in rural Arizona, ALECA believes that the Recommended Decision must be adopted in order to save the Federal universal service support program. ALECA further supports the Commission's actions to reform the universal service program so that it will function long into the future.

ALECA supports the proposed interim cap and reformation of the Federal universal service fund for the following compelling reasons:

<sup>1</sup> The following ILECs are ALECA members: Accipiter Communications Inc., Frontier Communications, Fort Mohave Telecommunications, Midvale Telephone Exchange, Inc., Navajo Communications, San Carlos Apache Telecom Utility, Inc., South Central Communications, Table Top Telephone Company, Inc., Tohono O'Odham Utility Authority, TDS Telecom, and the Valley Telecom Group (including Valley Telephone Cooperative, Inc. and Copper Valley Telephone, Inc.).

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(1) The interim cap will help prevent the Federal universal service fund from collapsing under its own weight while the Commission works to implement fundamental universal service reforms.

(2) Growth of the high-cost universal service fund at the current pace is unsustainable, a point upon which there is little disagreement. High-cost support for ILECs, including ALECA members, has been flat or even declined since 2003. In stark contrast, competitive ETC support has grown from \$15 million to almost \$1 billion between 2001 and 2006 and is estimated to grow to almost \$2.5 billion in 2009, even without additional competitive ETC designations. *Recommended Decision at 3*. As Commissioner Landis correctly pointed out, "there is only one group of providers which have seen dramatic and continued growth, and that group is wireless [competitive] ETCs." The dramatic rise in support to competitive ETCs threatens the existence of the Federal universal support program—a program upon which the rural ILECs depend for their very existence. States seeking larger distributions of support by designating multiple competitive ETCs for the same rural areas are placing the program in great jeopardy. The interim cap is an equitable approach to stemming the runaway growth in the fund while essential reforms are developed and implemented.

(3) Universal support is already "capped" for ILECs. ILECs must account for their costs in order to receive support from the universal service fund. Yet, competitive ETCs (most of which are wireless ETCs) receive "uncapped" support since they receive support based upon the ILECs' costs, even though the competitive ETCs' costs may be much lower. This amounts to a windfall for competitive ETCs. As a result, rural ILECs are placed at an economic disadvantage.

(4) In many cases, high-cost rural areas cannot support a multiplicity of competitive carriers. The universal service fund should not be used to subsidize competition from wireless ETCs in these rural areas at the expense of wireline service by ILECs. Instead, wireless service should be viewed as a "complement" not a substitute for wireline service. Thus, ALECA fully concurs with the following statement you made in your recent letter to the Chairman of the of the House Subcommittee on Telecommunications and the Internet:

[T]he subsidies generated by the Commission's universal service rules now [support] multiple wireless networks providing services that for many consumers are effectively a complement, not a substitute, to the service already offered by the subsidized wireline [ILEC]. I also warned that this policy could make it difficult for any one carrier to achieve the economies of scale necessary to serve all of the customers in a rural area, leading to inefficient and/or stranded investment and a ballooning universal service fund. I remain hesitant to subsidize multiple competitors to serve an area in which costs are prohibitively expensive

for even one carrier. *Letter from Chairman Martin to Chairman Markey, released May 14, 2007.*

(5) Wireless service in rural markets will not be negatively affected as a result of the Recommended Decision. The funding of existing competitive ETCs will continue at 2006 levels, and the Commission will have the flexibility to reallocate funding to newly applying competitive ETCs if circumstances warrant.

(6) The cap will curb increases in contributions from consumers, which will certainly occur as a result of the ballooning universal service fund.

ALECA fully supports the Recommended Decision because it is necessary for the preservation and promotion of the Federal universal service program. No one disputes the fact that the Federal universal service program will become unsustainable if the *status quo* is preserved. Preserving the *status quo* will neither serve the immediate interests of consumers nor address the challenge of reforming the Federal universal service program to enable greater broadband deployment or to promote the benefits that universal service brings to all consumers. Continued runaway growth of the fund will not only threaten the designation of new ETCs, but the universal service fund itself, which would be disastrous for all ETCs in Arizona and for the continuing promotion of investment in Arizona's rural telecom infrastructure. Therefore, ALECA supports the Recommended Decision and reformation of the universal service fund.

Thank you for your consideration of these comments. ALECA would be happy to provide any additional information which you might request regarding these important issues.

Sincerely,



Curt Huttzell, President  
Arizona Local Exchange Carriers Association